United Nations A/56/173/Add.2

General Assembly

Distr.: General
17 August 2001

Original: English

Fifty-sixth session
Item 107 (b) of the provisional agenda*
Macroeconomic policy questions: international financial system and development

International financial architecture and development, including net transfer of resources between developing and developed countries

Report of the Secretary-General

Addendum**

Information on work undertaken by the United Nations Conference on Trade and Development in support of the promotion of long-term private financial flows, especially foreign direct investment

1. In paragraph 19 of its resolution 55/186, the General Assembly requested the United Nations Conference on Trade and Development (UNCTAD) to provide information on the work it has undertaken to support the promotion of long-term private financial flows, especially foreign direct investment, inter alia, through enhanced technical cooperation, to all developing countries as well as economies in transition, in particular the least developed countries and other developing countries with special difficulties in attracting private financial flows.

2. UNCTAD activities on this matter aim at: (i) improving the understanding of developing countries and economies in transition about policy options in the area of international investment flows; and (ii) strengthening their abilities to formulate and implement policies, measures and action programmes for the purpose of attracting and benefiting from foreign direct investment.

3. They include the following technical cooperation activities:

(a) Organization of workshops and conferences in Asia, Latin America and Africa to promote the understanding of international investment agreements;

(b) Organization of training workshops in the areas of investment promotion, international investment agreement negotiations and regulation of insurance markets;

(c) Capacity-building activities in developing countries on issues in international investment agreements in order to help developing countries to participate as effectively as possible in international

* A/56/150.

** The footnote requested by the General Assembly in resolution 54/248 was not included in the submission.

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discussions on investment rule-making at the bilateral, regional or multilateral levels. The prime objectives of this programme are to deepen understanding of the issues involved, explore the range of problems to be considered, identify interests and, in particular, ensure that the development dimensions are understood and adequately addressed. Its activities are centred around intensive training courses for developing country negotiators (e.g., the intensive course for francophone African countries, held in Egypt, 5-16 June 2001), ad hoc technical assistance and civil society engagement events (e.g., the Foundation for Research on Multinationals (SOMO) and UNCTAD joint seminar for non-governmental organizations from the southern African region, held in Namibia from 14 to 16 February 2001);

(d) Facilitation of treaty negotiations, such as:

(i) Double taxation treaty negotiation round organized at the request of the G-15 and in cooperation with the Department of Economic and Social Affairs and the Government of Sri Lanka, where six member countries of the G-15 negotiated a number of double taxation treaties (Colombo, 9-14 December 1999);

(ii) Bilateral investment treaty negotiations for the Government of Thailand (Geneva, Switzerland, 17-24 January 2000);

(iii) Bilateral investment treaty negotiations requested by the Government of Bolivia (Lima, 29-31 March 2000);

(iv) Bilateral investment treaty negotiations for developing countries, where 12 countries participated and 22 treaties were initialled (Sapporo, Japan, 19-30 June 2000);

(v) Bilateral investment treaty negotiations for Kyrgyzstan with other countries (Geneva, Switzerland, 15-19 January 2001);

(vi) Bilateral investment treaty negotiations for francophone least developed countries (LDCs) with other interested countries (Geneva, Switzerland, 24 January-2 February 2001);

(e) Investment policy reviews, which critically examine investment policies and ensure their relevance and effectiveness both in terms of attracting foreign direct investment and ensuring that economic benefits are maximized. The reviews encompass: (i) an examination of the country's objectives and competitive position in attracting foreign direct investment; (ii) an audit of the country's foreign direct investment policy framework and administrative structures and procedures; (iii) a survey of firms to obtain investor perceptions and experiences; (iv) a round table meeting of stakeholders to discuss preliminary findings, policy options and recommendations; and (v) a presentation at appropriate intergovernmental and international forums whereby other Governments and private sector representatives can familiarize themselves with the country's investment environment and policies. Investment policy reviews on Egypt (United Nations Publication Sales No. E.99.II.D.20), Uganda (Sales No. E.99.II.D.24), Peru (Sales No. E.00.II.D.7), Mauritius (Sales No. E.01.II.D.11), Ecuador (UNCTAD/ITE/IPC/Misc.2), Ethiopia (UNCTAD/ITE/IPC/Misc.4) and Uzbekistan (UNCTAD/ITE/IPC/Misc.13) have been completed. The review on Zimbabwe is in progress. In five countries (Ecuador, Egypt, Mauritius, Peru and Uganda), authorities have initiated concrete actions to implement the recommendations. Follow-up technical assistance has been requested and the ensuing advice and training are expected to reinforce the policy actions being taken by the Governments. In terms of future activities, investment policy reviews are being carried out in Botswana, Ghana, Nepal and the United Republic of Tanzania. Official written requests have been received from several countries, including Belarus, Cambodia, Chile, Colombia, the Islamic Republic of Iran, Kenya, Lesotho, Mauritania, Pakistan and Senegal. In addition, follow-up to completed reviews will continue through technical assistance and dissemination of findings and recommendations. Dissemination efforts include the upgrading of the UNCTAD web site to present the reviews and information provided by the participating national investment agencies;

(f) Investment promotion advisory services and training activities, which assist developing countries and economies in transition — special attention being given to LDCs — to build the capacity to formulate appropriate investment policies, put in place an enabling legal and regulatory framework and establish and maintain an effective institutional support structure with the ability to promote and facilitate foreign direct investment. The advisory services institutional support is related to: (i) setting up an investment promotion agency or clarifying the identity, role and powers of

existing institutions; (ii) establishing effective one-stop agencies; (iii) establishing procedures and practices that could be employed in encouraging and evaluating foreign direct investment inflows; (iv) developing an information system capability to register and record inflows effectively and assess the impact on employment, taxation, balance of payments and backward and forward linkages; and (v) setting up information systems, organizing promotional visits and promotional material and arranging investment round table meetings. In addition, training on investment promotion, facilitation and targeting is provided to improve the capability of Government officials and national and regional institutions in developing countries and economies in transition. Countries that benefited from these advisory services and institutional support are Albania, Algeria, Bangladesh, Belarus, Bolivia, Brazil, Cameroon, Congo, Egypt, Eritrea, Djibouti, Gambia, Haiti, India, Jordan, Kazakhstan, Kenya, Lebanon, Mauritania, Morocco, Oman, Pakistan, Sao Tome and Principe, Saudi Arabia, Sri Lanka, Sudan, Uganda, Vanuatu and Yemen, as well as the West Bank and Gaza Strip. Training in investment promotion and investor targeting has been provided to Albania, Bangladesh, Benin, Bolivia, Djibouti, Egypt, Gambia, India, Jordan, Kenya, Pakistan, South Africa, Sudan, Uganda and Zambia, as well as to the West Bank and Gaza Strip. Furthermore, UNCTAD has been involved in a number of regional and interregional initiatives and in the work of the World Association of Investment Promotion Agencies.

(g) UNCTAD and International Chamber of Commerce project entitled "Investment guides and capacity-building for least developed countries (LDCs)". This project is undertaken in collaboration with the International Chamber of Commerce. The guides for investment in LDCs are designed as objective analyses of the investment environment and opportunities for the information of potential investors. This project is a response to the fact that LDCs receive less than 0.5 per cent of global foreign direct investment flows, even though most LDCs have removed many obstacles to such investment and are now actively seeking it. To address this imbalance, the project supplies potential foreign investors with an objective and up-to-date overview of investment conditions in participating LDCs in the form of an investment guide. It also incorporates workshops in each LDC, which focus on capacity-building in the investment promotion area. Participants in the project's pilot phase are Bangladesh, Ethiopia, Mali, Mozambique and Uganda. The guides that became available in 2000 are *An Investment Guide to Ethiopia (UNCTAD/ITE/IIT/Misc.19), An Investment Guide to Mali (in French; UNCTAD/ITD/IIT/Misc.24), An Investment Guide to Bangladesh (UNCTAD/ITE/IIT/Misc.29)* and *An Investment Guide to Uganda (UNCTAD/ITE/IIT/Misc.30).*

(h) Needs assessment to attract Asian foreign direct investment to Africa. An important share of foreign direct investment flows to developing countries originates in Asia. Some of the firms based in this region rank among the largest transnational corporations in the world. However, not much of the investment of these transnational corporations goes to Africa. This project examines foreign direct investment potential in Africa, in particular in African LDCs, for Asian investors, especially from Asian developing countries, with a view to assisting African LDCs in formulating policies favourable to attract foreign direct investment from Asia, including such investment by small and medium-sized enterprises. The investment potential of Botswana, Ghana, Madagascar, Mozambique and the United Republic of Tanzania is currently under review.

(i) Foreign portfolio investment. Such investment is gaining in importance as a source of external finance, but at the same time it is volatile. Countries that are liberalizing their capital accounts before putting in place an appropriate framework to regulate and supervise capital market activities are exposed to the risks arising from the volatility of capital flows. To address this issue, UNCTAD initiated technical cooperation work on the development of different sectors of capital markets, including the insurance sector, with a view to strengthening the capacity of developing countries, especially LDCs and other countries in Africa, to mobilize internal and external resources for development. The development of a well-regulated capital market, in turn, can be a positive factor to attract more foreign direct investment and allow more linkages between domestic firms and transnational corporations.

Development of a venture capital fund for LDCs is one of such activities, considering venture capital as a source of financing that is potentially well suited to LDCs for the development of a vibrant enterprise sector in these countries. Venture capital funds allow an effective sharing of risks between investors and investees. The activities of UNCTAD in this area are to

design and establish a special venture capital fund for LDCs and to implement a project to build the capacity of LDCs in order to attract more venture capital. A project on capacity-building in LDCs to attract foreign direct investment through venture capital funds is currently under implementation jointly with the Swiss Organisation for Facilitating Investments.

4. In addition, UNCTAD produces a number of publications to promote the understanding of emerging issues and policy challenges related to long-term private financial flows, in particular foreign direct investment. For example:

(a) *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development* (Sales No. E.00.II.D.20) provides an analysis of the trends and patterns of foreign direct investment flows and transnational corporation activity globally and in each region and discusses key policy issues related to the economic and social impact of foreign direct investment. As its special theme, the highly topical issue of mergers and acquisitions was covered in 2000, with a presentation of emerging trends in cross-border mergers and acquisitions and an analysis of the impact of mergers and acquisitions on external financial resources and investment, technology, employment and skills, export competitiveness and market structure and competition, as well as policy options to respond to each of these concerns. Policy matters in that sectoral policies need to address a number of potential negative effects (e.g., as regards employment and resource utilization). In addition, foreign direct investment policies in general can be used to maximize the benefits and minimize the costs of cross-border mergers and acquisitions, through sectoral reservations, ownership regulations, size criteria, screening and incentives. The most important policy instrument, however, is competition policy. The principal reason is that mergers and acquisitions can have significant and lasting effects on market structure and competition.

As part of the preparation of this publication, two regional seminars were organized in Austria (2 and 3 March 2000) and in Thailand (9 and 10 March 2000). The seminar in Vienna was on foreign direct investment and privatization in central and eastern Europe and concerned the development impact and policy implications of foreign direct investment as related to privatization. The seminar in Thailand, entitled "Cross-border Mergers and Acquisitions and Sustained Competitiveness in Asia: Trends, Impacts and Policy Implication", identified issues of particular interest for Asian countries, including the question of fire sales during financial crisis; mergers and acquisitions in Asia as a region and in selected Asian countries and industry experiences (i.e., financial services in Thailand and pharmaceuticals in India);

(b) The UNCTAD series on issues in international investment agreements consists of technical papers launched in February 1999 to make issues in such agreements more accessible to policy makers and other stakeholders concerned with the flow of foreign development aid to developing countries. Each paper examines a key concept and issue relevant to international investment agreements. The overreaching objective of the work of UNCTAD in the area is to maximize the developmental impact of international investment agreements. The papers published in recent years are *Trends in International Investment Agreements: An Overview* (Sales No. E.99.II.D.23), *Lessons from the MAI* (Sales No. E.99.II.D.26), *Taking of Property* (Sales No. E.00.II.D.4), *Taxation* (Sales No. E.00.II.D.5), *Employment* (Sales No. E.00.II.D.15), *Admission et établissement* (French translation of *Admission and Establishment*; Sales No. F.99.II.D.10), *Flexibility for Development* (Sales No. E.00.II.D.6), *Environment* (Sales No. E.01.II.D.3), and *Transfer of Funds* (Sales No. E.00.II.D.27);

(c) *International Investment Instruments: A Compendium, Vol. IV: Multilateral and Regional Instruments* (Sales No. E.00.II.D.13) and *International Investment Instruments: A Compendium, Vol. V: Regional Integration, Bilateral and Non-governmental Instruments* (Sales No. E.00.II.D.14) contain a total of 143 international investment agreements, making the texts of such agreements conveniently available to interested policy makers, scholars and business executives;

(d) *Investment Regimes in the Arab World: Issues and Policies* (Sales No. E/F.00.II.D.32) includes four case studies on the legal and regulatory regimes for foreign direct investment in Egypt, Lebanon, Morocco and Saudi Arabia, as well as an overview of the regulatory and institutional framework for investment in the Arab world as a whole;

(e) *The Competitiveness Challenge: Transnational Corporations and Industrial Restructuring in Developing Countries* (Sales No. E.00.II.D.35) provides

information and analysis on the impact of foreign direct investment on industrial restructuring and competitive performance, the development of human resources, technology and organizational knowledge and the strengthening of local suppliers. Based on firm-level interviews and in-depth literature analyses, it traces the international trends and the performance of developing countries in the garment, colour television and automotive industries and natural resource-based production in 10 developing countries;

(f) *Bilateral Investment Treaties, 1959-1999* (UNCTAD/ITE/IIA/2) documents a rapid increase in the number of such treaties during the 1990s, which quintupled since the previous decade, and provides a snapshot of the universe treaties signed by the end of 1999. It was suggested that such treaties would be playing an increasingly important role in international investment relations, including South-South cooperation;

(g) *Foreign Direct Investment in Least Developed Countries at a Glance* (UNCTAD/ITE/IIA/3) reports recent trends in such investment in LDCs and changes that have taken place in relevant areas of the regulatory legal framework. It then presents country profiles of each of the 49 LDCs, allowing the reader to get a general picture of the role of foreign direct investment in these countries. This publication was prepared for the occasion of the Third United Nations Conference on the Least Developed Countries, held in Brussels from 14 to 20 May 2001.